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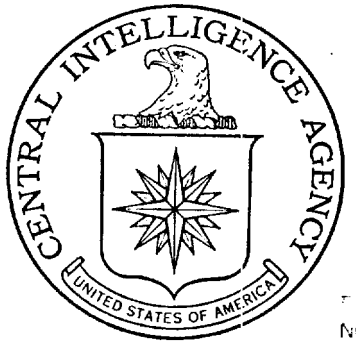

CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

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SUMMARY OF CONTENTS

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THE SOVIET WORLD

Moscow still evidently desires a round-table conference open to all states concerned in the settlement of the Korean question, as opposed to the American concept of the "two sides." There are no indications that the Communists will abandon this position, outlined in the two Soviet UN resolutions and endorsed by Communist China and North Korea.

Communist charges of American obstructionism on the conference may foreshadow proposals designed to circumvent the UN's endorsement of the American concept of a conference and to reopen the Korean question in this fall's Eighth General Assembly. Such proposals are likely to suggest the participation of some or all of the "neutral" and "neighboring" states mentioned in earlier Soviet resolutions.

The Soviet Union will probably attempt to link the admission of Communist China to the UN, which Vyshinsky has promised to raise in the Eighth General Assembly, with its effort to revive the controversy between the United States and other UN members on Korean issues. Vyshinsky remarked on 27 August that if it should develop that "there was some discrepancy" between the Communist position and the UN recommendations on the political conference, the "question should be discussed anew in the General Assembly."

The North Korean delegation which departed for Moscow on 1 September will probably receive instructions on tactics to be followed in the political conference, in addition to discussing internal North Korean political and economic matters. General Peng Teh-huai, who headed the Chinese Communist delegation to the truce talks, has also reportedly left for Moscow.

Moscow's reaction to the installation of a pro-Western regime in Iran has been guarded but apparently conciliatory. According to press reports, the Soviet trade representative in Iran has had several meetings with the Iranian minister of national economy. A report of 1 September stated that a supplementary Soviet-Iranian barter agreement had been approved by members of the Iranian government.

Inside the Soviet Union, the position of P. K. Ponomarenko in recent listings of top party officials tends to confirm rumors that he has replaced S. D. Ignatiev as a member of the central committee secretariat. His appointment to the secretariat would further ensure Malenkov's control over top-level personnel appointments.

In another personnel shift, I. A. Benediktov, Soviet ambassador to India since 28 April, has been recalled and will "return soon to the agriculture ministry." Benediktov served as Soviet minister of agriculture from 1946 to 1953. He may now become first deputy minister, or may suceed the present minister, A. I. Kozlov, although there is no indication of the latter's fall from grace. The new ambassador to New Delhi, M. A. Menshikov, was minister of foreign trade until 1951.

East German Communist authorities reacted to the opening of the second phase of the Western food program on 27 August by repeating the previous pattern of vitriolic press attacks against the program and admonitions to the people to stay away from West Berlin. A blockade of the Western sector has not been attempted, but there is some evidence that a military cordon has been thrown around it to harass or control travelers. The East German railways have been placed on an alert status, probably to stem the movement of people to Berlin if its proportions become too great.

There are also indications that the resumption of the food program has intensified the antagonism of the population toward the East German government. Communist interference and some decline in popular enthusiasm will probably prevent the program from reaching the proportions of the first distribution. It will continue, however, to be a serious threat to the prestige of the East German regime.

AUSTRIA REMAINS SOVIET PAWN IN GERMAN DEADLOCK

The Soviet Union has taken a number of steps to de-emphasize the role of its military personnel in Austria, the latest reportedly being the abolition of some of its army zonal border checkpoints and Kommandaturas. Soviet diplomacy, however, has revealed no intention to agree to an Austrian treaty, except as part of a solution of the German problem.

The various steps taken by the Soviet military authorities would be consistent with a plan to withdraw from Austria, but there are other valid reasons for them. The closing of border checkpoints follows logically the 8 June termination of Soviet checks on passenger and freight traffic. This, together with the abolition of Kommandaturas, reflects the recent reduction of Soviet interference with Austrian internal affairs for propaganda purposes. The Soviet Union's 1 August assumption of its own occupation costs provides an economic motive for reducing its military establishment in Austria. Soviet removal of IL-28's from Austria late in June is not indicative of a change in policy toward Austria alone, since similar action was taken in Germany.

There is no indication that the USSR intends to withdraw all of its troops from Austria, and the activity of the Soviet occupation forces is following the normal pattern for this time of year.

Since withdrawal would not mean the fall of a puppet government as it would in the Soviet zone of Germany, the Kremlin could abandon its stake in Austria without suffering a critical loss. Soviet withdrawal under the terms of the treaty already largely drafted would involve relinquishing about 350 enterprises, but the $150,000,000 payment would probably be more than adequate compensation. The Soviet Union would retain the valuable oilfields which now supply 90 percent of Austria's annual production of approximately 3,000,000 tons. It would lose an advanced military base, but one far less important strategically than East Germany. On balance, it appears that withdrawal from Austria would not be too great a sacrifice of Soviet power if the Kremlin thought it necessary to meet Western demands for proof of its willingness to relax cold-war tensions.

Nevertheless, the pattern of Soviet diplomatic action has not indicated that the Kremlin is willing to change its generally rigid policy of holding on to past gains. In addition, the new Soviet regime may be restrained by fear that withdrawal would be interpreted as a sign of weakness and would thus increase unrest in the Satellites, particularly East Germany. Conclusion of an Austrian treaty would also remove the legal pretext for maintaining troops in Hungary and Rumania.

Recently the Soviet Union has given several indications, the first time specifically in its 4 August note, that it would agree to an eventual Austrian settlement only as part of negotiations on the German question. Moscow rejected the Western bid for treaty talks on 27 May on a flimsy excuse. Its answer to the West's invitation to a 31 August treaty deputies' meeting again revealed unwillingness to negotiate on the Austrian issue alone.

Instead of concluding a treaty, Soviet policy has concentrated on a series of conciliatory gestures designed to turn Austrian official and public opinion away from the West. The Kremlin appears to be removing sources of friction with the Austrian populace and cutting down operations which are uneconomic or strategically unnecessary. It could go so far as to withdraw some or all of its troops in an extreme effort to embarrass the West, without yielding its occupation authority.

The Kremlin can be expected to welcome the newly demonstrated Austrian interest in bilateral negotiations, which may provide opportunities to settle problems causing Austria concern on terms beneficial to the USSR. This method, already employed successfully in the negotiations on the Ybbs-Persenbeug hydroelectric plant, can undermine Western efforts to gain more favorable treaty terms for Austria.

These tactics, while achieving some success in creating friction between Austria and the Western powers, are not indicative of any Soviet intention to agree to a treaty as long as the Soviet Union considers Austria a valuable pawn in the deadlocked German negotiations.

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PRESIDENT RHEE'S TIGHTENING CONTROL OVER SOUTH KOREA

President Rhee's control over the internal South Korean situation has been strengthened in the past few months by several political, military, and internal security developments. Rhee will probably not violate his truce assurances before the start of the political conference, but his ability to oppose unfavorable decisions and to undertake independent action after 90 days of discussions has been increased.

Although government pressure has been applied to all opposition parties, Rhee has struck primarily at the Democratic Nationalist Party, South Korea's principal overt opposition group. Chough Pyong-ok, the party's secretary general, was severely beaten, arrested, and indicted in June for publicly opposing Rhee's antitruce stand. Later, after considerable police intimidation, Chough retired from public life, 25X1

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Chough's about-face aroused considerable opposition from some of his party colleagues, but the majority did not miss the lesson of the government's repressive tactics. Press reports indicate that 23 of the group's assemblymen have joined or will soon join Rhee's party, reducing the Democratic Nationalist Party's strength below the minimum necessary to constitute a legislative opposition.

While some opposition leaders have considered forming a new coalition party, their efforts have so far been unsuccessful, partly because pro-Rhee elements have infiltrated these movements, and partly because potential leaders fear that freedom to form such a front no longer exists in South Korea. The net effect of the government's strategy has been to eliminate virtually all political opposition.

Rhee may now renew his attempts to weaken the legislature. A possible prelude to such a move was indicated on 15 August when demonstrators "spontaneously" demanded swift adoption of constitutional amendments empowering the government to dissolve the legislature, lifting the ban on a third term for President Rhee, permitting constitutional changes by referendum, and providing for the popular recall of assemblymen. Rhee has already reduced the legislature's foreign policy powers by authorizing the National Defense Committee to conclude treaties without assembly approval.

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Rhee's control over the executive branch, exercised through the Home Affairs Ministry and the national police, has also been strengthened this summer.

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Finally, Rhee has moved to control the military leadership. Most Japanese-trained officers, who are generally anti-Rhee, have been removed from command positions. Some of Rhee's advisers have called for the replacement of the army chief of staff, perhaps by General Yi Hyong-kun, who favors an independent northward advance. Rhee has also recently established a militia outside the defense establishment which may in time neutralize the influence of the regular army.

While Rhee's increased control gives him a strong position for bargaining and for raising his demands at the political conference, there is no evidence that he plans to upset the truce before the 90-day time limit expires. A development, however, which may indicate future South Korean intentions is the contemplated establishment of a joint chiefs of staff. This could be so constituted as to strengthen Rhee's control over the military and provide him with a command structure to replace the United Nations Command.

FINANCIAL PROSPECTS IN IRAN*

Prime Minister Zahedi faces a serious financial situation arising from the policies of the Mossadeq government and must solve it if he is to retain control of the government. Foreign financial aid is necessary to restore a semblance of stability to the country. An early solution of the Anglo-Iranian oil dispute is needed to ensure a permanent income to meet expenses and to carry out economic and social reforms without considerable aid from abroad.

The 1951 oil nationalization meant the loss of nearly 12 percent of Iran's budget and one third of its total national income, and in 28 months of effort former prime minister Mossadeq never solved this problem. His various stop-gap measures to meet current expenses included expanding the note issue 40 percent, borrowing from the National Bank, withdrawing gold deposited with the International Monetary Fund, and reducing government expenditures. Prime Minister Zahedi now claims that, as a result of Mossadeq's actions, Iran is $500,000,000 in debt, of which $250,000,000 is owed to the National Bank.

In March the American embassy in Tehran estimated that Iran's budget would require about $60,000,000 from outside sources in fiscal year 1954 to maintain economic stability without oil revenues. This amount would provide for necessary foreign exchange surplus as well as funds for economic development. Since then, the continuing financial crisis has increased the need.

On 30 August Ambassador Henderson and Point IV director Warne estimated that Iran needs $65,000,000 in excess of the $23,500,000 already alloted for 1954 under the Point IV program to meet the current operating deficit for the next seven months, to initiate employment-creating programs, and to establish overall development programs that can be maintained for several years.

Only a restoration of oil revenues, however, promises a satisfactory long-term solution to Iran's problems. In 1949, Iran decided to set aside all oil revenues for construction and development projects to be carried on through the Seven-Year Plan Organization. This organization and its projects have been limping along at a much-reduced level since 1951. Any government

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*For further discussion of this subject, see SE-49.

that expects to stay in power must not only make payments on the large public debt and handle current operating expenses but must meet the growing demand for social reforms and higher living standards.

Although the shah and the prime minister probably recognize that Iran's only means of achieving these ends is through oil, the anti-British sentiment aroused by Mossadeq still makes it difficult for Zahedi to push negotiations for an agreement with Britain. Zahedi has indicated his intention of proceeding cautiously toward the British, and he has publicly stated that he cannot agree to pay compensation for loss of future profits, a point on which the British insist. An extended period of bargaining probably will take place after negotiations are finally started, and both countries will have to show more flexibility and willingness to compromise than they have in the past.

[redacted] the Soviet Union may be contemplating some measures to aid Iran. These may be to provide goods on long-term credit or to extend the present barter arrangements. It is not likely, however, that the USSR would be willing to provide the direct financial aid which Iran needs. Nevertheless, if the Soviet Union makes attractive trade offers when the Iranian-Soviet talks are resumed in Tehran, Iran might find it difficult to turn them down.

Zahedi's capacity to maintain his position depends on his ability to find short-range financial aid to meet Iran's immediate problems and a solution of the oil dispute which would provide the necessary resources for long-range economic and social improvement. If the prime minister cannot achieve these objectives, he risks the collapse of his government and the probability that any successor government would lead Iran toward the Soviet Orbit.

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INFILTRATION OF GOVERNMENT IS CHIEF COMMUNIST THREAT TO INDONESIA

The principal danger presented by Indonesia's new Communist-influenced cabinet is not the possibility of an early Communist takeover or the imposition of extreme leftist policies but the opportunity for widespread Communist infiltration throughout the government, the police, and the armed forces. With the Nationalist Party-Communist bloc in control, policy is expected to be more nationalistic and hence less friendly to the West, but no marked cooperation with the Soviet bloc is anticipated.

Developments have progressed so favorably and so rapidly for the Communists that there appears no need for them to take the risk of discarding legal procedures. After little more than a year of united-front tactics, the Communists -- through cooperation with the National Party, the second largest in parliament -- have made their support essential for cabinet stability. They lack a military force capable of supporting a coup, however, and the present leaders of Indonesia's armed forces and police are largely anti-Communist.

In spite of threats to increase trade with Communist China and to open diplomatic relations with the Soviet Union, the new premier presented a relatively moderate policy statement to parliament on 25 August. It differed little from statements of former governments and avoided controversial questions. This approach indicates that the leftists will try to avoid antagonizing conservative elements in the cabinet and thus buy time for the gradual replacement of moderate government, police, and army officials by pro-Communists.

In addition to replacements and infiltration, an obvious opportunity for political gains lies in the preparations for the country's first national elections, tentatively scheduled for mid-1955. With the Masjumi, Indonesia's principal anti-Communist force, excluded from the government, the Nationalist Party-Communist alliance can enhance its own election prospects through the use of government media and by controlling appointments throughout the electoral apparatus.

So far anti-Communist elements in the army and parliament appear to have adopted a policy of watchful waiting, limiting their activities to democratic processes.

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SOVIET INTEREST IN ALBANIA SPURRED BY BALKAN PACT

Soviet interest in the Albanian Communist regime has increased markedly during the past six months, in part because of the conclusion of the Balkan pact and the ambiguous 11 July declaration of the Yugoslav, Greek, and Turkish foreign ministers that Albanian independence was necessary for the attainment of peace and stability in the Balkans.

After Tito's change in status from protector to enemy in 1948, Albania remained the only European Satellite lacking a mutual defense pact with the Soviet Union, membership in the Cominform, and representation at the ambassadorial level in Moscow. Presumably because of Albania's vulnerable position, the USSR carefully avoided such commitments. Hoxha's only formal guarantee of assistance in the event of foreign aggression is a mutual security pact with Bulgaria which was concluded in December 1947. Whether or not the USSR would approve the implementation of this pact is problematical.

Several recent Soviet gestures evidence a desire to strengthen Albania's position. On 4 August, Moscow Radio announced that the Soviet minister to Albania had been elevated to the rank of ambassador, and Albania promptly reciprocated. There is evidence that the number of Soviet technical and military advisers in Albania has been augmented this year, and it has been determined recently that an airfield capable of handling jet fighters is in an advanced state of construction. This suggests that Albania is to receive increased military assistance. The inclusion of jet aircraft would constitute the first significant addition to the military capabilities of Albania in several years.

Other evidence of Soviet interest in Albanian affairs is seen in the reorganization of the Albanian government on 23 July featuring a consolidation of government ministries. In the reshuffling of government posts, Beqir Balluku, Albanian chief of staff who attended the Voroshilov Military Academy in Moscow from mid-1952 through March 1953, replaced Hoxha as minister of defense. At the same time Minister of Interior Mehmet Shehu, the alleged rival of Hoxha, was removed from the party secretariat, and there have been other recent indications that his influence is being reduced.

There are no signs that the infrequent and uncoordinated acts of resistance constitute a threat to Hoxha's control over the country. There is evidence, however, of peasant recalcitrance and malingering which indicates general dissatisfaction with the regime.

Recent legislation canceling peasants' debts and subsequent promises of greater government solicitude for the well-being of workers and peasants, measures presumably directed by the Kremlin, are an abrupt change from the oppressive internal policy pursued by Tirana through the end of May. Some real concessions to the peasantry and token measures to help industrial workers should partly reduce domestic political pressures until the new consumer goods industries provide for a general rise in the living standard. The necessity to import at least one third of the food supply as well as the essential products of heavy industry will continue, but the USSR appears reconciled to maintaining Albania, even though an economic liability.

The Kremlin's actions suggest an intention to display increasing interest in Albania in order to deter the Balkan neighbors and Western powers from overt or covert aggression. The Soviet government has not as yet seen fit, however, to commit itself firmly to Albania's defense through a mutual security pact.

LABOR TROUBLE BUILDING UP IN ITALY

Recent signs of labor unrest in Italy suggest that a wave of strikes supported by all the labor organizations is likely in the fall. The Pella government, limited in authority and created primarily to obtain parliamentary approval of a 1953-54 budget, will probably not be able to take adequate steps to avert the strikes.

Labor's immediate dissatisfaction springs both from its failure to obtain adequate wage increases in the face of a steadily rising cost-of-living index and from management's continued policy of dismissing marginal workers to enable Italian industry to compete more effectively in foreign markets. All the labor organizations have increasingly tended to support local walkouts on these issues, and just before the August vacation period began, the non-Communist unions cooperated with the Communist-dominated General Labor Confederation (CGIL) in brief, nation-wide chemical and textile strikes protesting dismissals.

The leftward trend evident in the June elections increased labor's insistence on redress of its economic grievances. Aside from the rise in the Communist and Nenni Socialist vote, the elections doubled the representation of the Christian Democratic-oriented Confederation of Trade Unions in the Chamber of Deputies, and the reform-minded left wing of the Christian Democratic Party emerged as that party's strongest faction. Labor did receive one concession shortly after the elections, when the caretaker De Gasperi government secured parliamentary approval for an advance payment on the cost-of-living bonus for state employees called for in the Christian Democratic platform.

The cuts in civil expenditures the Pella government has asked in its proposed 1953-54 budget, however, make it questionable whether the rest of the bonus will ever be granted. Any general pay increase for civil servants also seems to be ruled out. Meanwhile, labor's grievances are almost certain to be aggravated by the proposed budget's failure to provide for an increase in "social expenditures" as had been expected.

With hope of relief thus postponed, the powerful Communist CGIL has an excellent opportunity to call more extensive strikes which, in self-protection, the smaller non-Communist unions will find it difficult to oppose. Such strikes might be timed to coincide either with the budget debates beginning in late September in the Chamber of Deputies or with the expected parliamentary crisis thereafter, when a successor must be found to the present provisional government.

THE US-PANAMA TALKS ON TREATY REVISION

The elaborate 27 August sendoff given Panama's delegation to the 10 September Washington talks on Canal Zone treaty revision illustrates the great popular attention now focused on this issue. Failure to obtain some tangible concessions from the United States will tend to weaken the moderate and pro-US Remon government and to give increased currency throughout Latin America to nationalist and Communist charges that the United States disregards the rights of small nations.

Panama's demands spring partly from long-standing irritations produced by a foreign enclave on its territory, and partly from the republic's currently serious financial difficulties. Its specific demands will reportedly include an increase from $430,000 to $5,000,000 in the annuity provided by the United States under the 1936 revision of the original 1903 treaty, as well as a rise in canal tolls and a share in them for Panama. Remon's representatives may also ask for a cessation of Zone commercial activities which compete with Panamanian business, and an end to economic and racial discrimination against Panamanian workers in the Zone. In return, they may offer air bases in the republic.

Popular sentiment for changes in the treaty was stirred up last March by an incautious speech of the newly installed president. Communists and powerful opposition groups, mainly ultranationalists, were quick to offer their support on this universally popular issue, evidently hoping that Remon would so deeply commit himself as to discredit his administration at home and alienate the United States.

More recently, Remon has been trying to tone down popular expectations and, in an effort to minimize his political liability, has attached to the delegation to Washington two former presidents who are leading political opponents. Both ex-presidents are eminent lawyers who have shown anti-US attitudes; one of them, Harmodio Arias, is also an important newspaper owner and an extremely skilled intriguer likely to do everything possible to turn the talks to his own political advantage.

Meanwhile, Remon's long-sought invitation to visit President Eisenhower on 28 September has reinforced his domestic political prestige, at least temporarily. It will also allow him to make a dramatic personal report on the initiation of the treaty talks to the National Assembly when it reconvenes

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on 1 October. Should the results then obtained from the talks not appear politically acceptable in Panama, however, Remon may feel forced to defend himself against ultranationalist attacks by taking an anti-US line.

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PROSPECTS FOR SOVIET AGRICULTURE

The new Soviet regime, in an apparently realistic effort to raise agricultural output, has reversed Stalin's theoretical approach toward the organization of agriculture, with its basic distrust of the peasant and its elaborate system of controls. Instead Malenkov has instituted a more liberal program, based on increased incentives to the individual collective farmer. Although indications of the reversal have been noted since May, its scope and significance became particularly apparent during the recently concluded Supreme Soviet session.

In his Bolshevik article last October, Stalin reiterated the proposition that "commercial production" was incompatible with full communism and therefore eventually had to be abolished in favor of barter. The logical conclusion was that the collective farm market must be eliminated and the entire agricultural surplus delivered to the state in exchange for manufactured goods. It amounted, in fact, to a gradual but complete substitution of state for collective farms.

This policy seemed still to be reflected in the spectacular cuts in prices of fruits and vegetables announced on 1 April. These reductions were probably calculated to force the collective farm markets to compete with arbitrarily lowered prices in the state stores. By the end of May, however, agrarian policy was shifting. Pravda delivered a sharp rebuke to those seriously interested in Stalin's thesis of a transition to a barter system and condemned the plan as "theoretically incorrect" and "practically harmful" during the current historical period.

Having reassured the collective farmers in May that the status quo would be maintained, the government went much further in August by announcing important new concessions to the peasantry. First, Minister of Finance Zverev informed the Supreme Soviet on 5 August that the agricultural tax, based on the income received by peasants from their private holdings, would be reduced by 43 percent in 1953 with further decreases in 1954. Other tax reductions were provided in order to encourage the private purchase of cattle, and tax arrears were cancelled for those who had worked the prescribed number of days.

Malenkov's subsequent speech further revealed that the Soviet government had decided to pay more for many agricultural commodities procured by the state as obligatory deliveries. In addition, obligatory deliveries from the kolkhoz members' private plots were to be "considerably reduced."

These changes seem to indicate a major shift in the Soviet attitude toward the peasantry, but not a reversal of the collectivization policy. Ever since the collectivization drive first began over 20 years ago, the government's efforts had been increasingly directed toward enlarging, improving and encouraging the collective sector of agriculture and reducing and discouraging individual production. Now Malenkov says that the latter will be assisted and encouraged.

Such a shift is a clear admission that peasant support of collectivization has not been attained and indicates that the Soviet government now realizes the necessity of attempting to increase agricultural production through a more realistic system of incentives. It confirms that the much-publicized Three-Year Plan for the development of communal husbandry was a dismal failure and also points to the inability of the government to provide state stores with adequate amounts of agricultural products and other consumer goods, a situation that has become increasingly evident during the current year.

These concessions are intended only to improve the existing system, and their continuation may well depend on an increase in production. At least for the near future, however, the peasantry should enjoy a slightly higher living standard although, as Malenkov warned, nonfulfillment of minimum work days will bring stiffer penalties than in the past. As for the question of collective farm amalgamation, Malenkov implied that the need for some mergers still exists.

The new Ministry of Agriculture and Procurement is apparently to be given greater authority in implementing the new program. This should help to decrease some of the bureaucratism that has impeded ministerial control. Finally, Malenkov indicated that production figures for grain and other produce will no longer be derived from estimated yields but on the basis of amounts actually harvested. All of these changes suggest more efficient supervision of Soviet agriculture.